

TOWNSHIP OF LOVELLS
CRAWFORD COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name LOVELLS TOWNSHIP	County CRAWFORD
Fiscal Year End 03-31-2006	Opinion Date 05-09-2006	Date Audit Report Submitted to State 09-11-2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

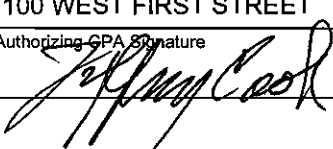
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) KESKINE COOK MILLER & ALEXANDER, LLP		Telephone Number 989-732-7515	
Street Address 100 WEST FIRST STREET		City GAYLORD	State MI
		Zip 49735	
Authorizing CPA Signature 		Printed Name JEFFREY COOK	License Number 11876

TOWNSHIP OFFICIALS

SUPERVISOR

FRED SCHAIBLY

CLERK

CHERYL HOPP

TREASURER

ANN DUBY

TRUSTEES

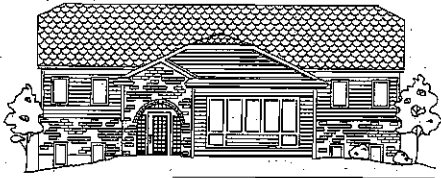
DELPHINE NOWACZYK

ANNETTE STIMPSON

LOVELLS TOWNSHIP

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Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

INDEPENDENT AUDITOR'S REPORT

May 9, 2006

To the Township Board
Lovells Township
Crawford County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of the Township of Lovells, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the major funds, and the aggregate remaining fund information of the Township of Lovells as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-6 and budgetary comparison information on pages 23-27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KESKINE, COOK, MILLER & ALEXANDER, LLP

Keshi Cook Miller & Alexander LLP

LOVELLS TOWNSHIP
TWIN BRIDGE ROAD
GRAYLING, MI 49738

LOVELLS TOWNSHIP MANAGEMENT DISCUSSION AND ANALYSIS

This section of Lovells Township's annual financial report presents our discussion and analysis of the entity's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

Our financial status remained stable over the last year.

In the General Fund overall revenues were \$142,753.00 and overall expenses were \$126,249.00. Our beginning balance for the 2006-2007 budget year is \$223,788.00. The General Fund spent \$23,745.00 to install Miracle Recreation Equipment. The Township also purchased a computer for the clerk for \$1,022.46, new tile in the kitchen, foyer, hall, bathrooms and the Supervisors office for \$2,380.00. New windows for the main hall and kitchen were purchased and installed for \$1,350.00. The boiler was replaced with a new one for \$7,121.25. Excavating and sand for the playground cost \$2,100.00 and new trim throughout the hall with labor cost \$1,102.50.

In the Fire Fund overall revenues were \$62,217.00 and overall expenses were \$64,153.00. Our beginning balance for the 2006-2007 budget year is \$93,483.00. Expenses were \$10,136.00 higher than the 2005-2006 budget allowed so the budget had to be amended. Firemen runs went over budget along with Fire Equipment, Vehicle Operating Supplies, and Insurance. The Fire Fund purchased a computer for \$1,242.44, Air Packs for \$13,454.67.

In the Landfill Fund overall revenues were \$86,017.00 and overall expenses were \$64,910.00. Our beginning balance for the 2006-2007 budget year is \$194,915.00. Our yearly cost for Contracted Services has gone down and salaries are slightly up due to yearly raises to all the hourly employees. An addition to the fencing around the transfer stations cost \$4,180.00.

In the Liquor Fund overall revenues were \$911.00 and overall expenses were \$722.00. Our beginning balance for 2006-2007 budgeted year is \$1,034.00. Nothing unusual happened in this account.

Our voters registration count is about 500.

The Lovells Township Library is currently run by Crawford County Library.

Our tax base increased by the rate of inflation.

Overview of the Financial Statements

This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the entity.

The first two statements are entity wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities and/or business type activities.

The remaining statements are fund financial statements, which focus on individual parts of the entity in detailed data.

Required supplementary information further explains and supports the financial statements information with budgetary comparisons.

Entity Wide Statements

The entity wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity wide statements report new assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

Most of the activities of the entity are reported as governmental activities. State Shared Revenue, Summer Tax Collection and Interest on Investments are examples of governmental activities. Some activities, of which we do not have any, are treated as business activities where the revenues of the activity are designed to pay for the operations of the activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the entity's funds, focusing on significant (major) funds not the entity as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the entity's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The entity has the following kinds of funds:

Governmental Funds – Most of the entity's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the entity wide statements and the fund statements are disclosed to explain the differences between them.

Proprietary Funds – These funds represent activities in the government which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show little difference from the entity wide statement presentation.

Fiduciary Funds – The entity is a trustee or fiduciary for assets that belong to others. The entity maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belong. These activities do not appear in the entity wide financial statements since the assets do not belong to the entity.

Financial Analysis of the Entity as a Whole

Net assets – the entity's combined net assets increased during the year ended March 31, 2006, totaling \$329,546.00.

This condition can be attributed to the conservative spending of the current board.

Governmental Activities – the only noticeable change in this area has been a slight increase in interest on investments.

Financial Analysis of the Entity's Funds

The General Fund spent \$25,845.00 for the purchasing and preparation of ground for the Miracle Recreation Equipment. The General Fund also spent \$11,953.85 on Township Hall improvements. The March 31, 2006 ending balance is \$223,788.00, which is an increase of \$16,504.00.

The Fire Fund Budget was amended for \$10,136.00. The March 31, 2006 ending balance is \$93,483.00, which is a decrease of \$1,936.00.

The Landfill Fund Balance increased by \$21,107.00. The March 31, 2006 ending balance is \$194,915.00.

The Liquor Fund balance increased by \$189.00. The March 31, 2006 ending balance is \$1,034.00.

The Lovells Library is run by the Crawford County Library System and at this time in not our financial responsibility except for maintaining the building.

Capital Asset and Long-Term Debt Activity

The Township (all funds) has no loans with any organization.

Known Factors Affecting Future Operations

There are no potential contingencies such as lawsuits in progress, upcoming contract negotiations, new grants or any changing in funding policies in the works.

The Township Board is planning on replacing a few more windows in the offices at the hall. Also, estimates for replacing our fencing around the hall has been sought.

Contacting Entity Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report, please contact Supervisor Fred Schaibly.


Lovells Township Supervisor

**TOWNSHIP OF LOVELLS
STATEMENT OF NET ASSETS
MARCH 31, 2006**

ASSETS

Current Assets:

Cash	\$ 180,642
Investments	149,000
Receivables	21,529
Due from Fiduciary Fund	162,049

Total Current Assets	513,220
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Non-Current Assets:

Capital Assets	750,032
Accumulated Depreciation	(299,433)

Total Non-Current Assets	450,599
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Total Assets	963,819
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NET ASSETS

Investment in Capital Assets	450,599
Net Assets, Unrestricted	513,220

Total Net Assets	\$ 963,819
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See accompanying notes to financial statements.

**TOWNSHIP OF LOVELLS
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006**

P R O G R A M R E V E N U E S				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
GOVERNMENTAL ACTIVITIES:				
General Government	\$ (120,515)	\$ -	\$ -	(106,250)
Public Safety	(64,880)	909	-	(63,135)
Health & Welfare	(60,730)	654	-	(60,076)
Community & Economic Dev.	(6,155)	3,209	-	(2,946)
Debt Service	-	-	-	-
Total	(252,280)	18,964	909	(232,407)
GENERAL REVENUES				
Property Taxes:				
Levied for General Purposes				38,137
Levied for Fire Protection				60,598
Levied for Landfill				83,581
State Shared Revenue (not restricted to specific purposes)				43,005
Swamp Tax				40,940
Interest on Investments				5,444
Other				320
Total General Revenues				272,025
Change in Net Assets				39,618
Net Assets - Beginning of Year				924,201
Net Assets - End of Year				\$ 963,819

See accompanying notes to financial statements.

TOWNSHIP OF LOVELLS
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	M A J O R F U N D S			NON-MAJOR	TOTAL
	GENERAL	FIRE	LANDFILL	FUND LIQUOR	
ASSETS					
Cash	\$ 109,592	\$ 13,800	\$ 56,216	\$ 1,034	\$ 180,642
Investments	75,000	19,000	55,000	-	149,000
Delinquent Taxes Receivable	4,446	7,341	9,742	-	21,529
Due from Other Funds	34,750	53,342	73,957	-	162,049
Total Assets	223,788	93,483	194,915	1,034	513,220
FUND EQUITY					
Fund Balance - Undesignated, Unreserved	223,788	93,483	194,915	1,034	513,220
Total Fund Equity	\$ 223,788	\$ 93,483	\$ 194,915	\$ 1,034	\$ 513,220

See accompanying notes to financial statements.

**TOWNSHIP OF LOVELLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006**

**TOTAL FUND BALANCE - GOVERNMENTAL ACTIVITIES (PER BALANCE
SHEET - PAGE 9)**

\$ 513,220

Amounts reported for governmental activities in the Statement of Net Assets
(page 7) are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not used in the funds

450,599

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT
OF NET ASSETS - PAGE 7)**

\$ 963,819

See accompanying notes to financial statements.

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	<u>MAJOR FUNDS</u>			<u>NON-MAJOR FUND LIQUOR</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>FIRE</u>	<u>LANDFILL</u>		
REVENUES					
Local Sources:					
Property Taxes	\$ 38,137	\$ 60,598	\$ 83,581	\$ -	\$ 182,316
Charges for Services:					
Summer Tax Collection Fees	9,628	-	-	-	9,628
Permit Fees	780	-	-	-	780
Land Split Fees	225	-	-	-	225
Grave Openings	600	-	-	-	600
Library Reimbursements	628	-	-	-	628
Other:					
Cemetery Lot Sales	100	-	-	-	100
Hall Rental	100	-	-	-	100
Interest	2,877	783	1,782	2	5,444
Other	5,733	836	654	-	7,223
State Sources:					
State Shared Revenue	43,005	-	-	909	43,914
Swamp Tax	40,940	-	-	-	40,940
Total Revenues	142,753	62,217	86,017	911	291,898
EXPENDITURES					
General Government	120,094	-	-	-	120,094
Public Safety:					
Fire Protection	-	64,153	-	-	64,153
Liquor Law Enforcement	-	-	-	722	722
Health & Welfare	-	-	64,910	-	64,910
Community Development	6,155	-	-	-	6,155
Total Expenditures	126,249	64,153	64,910	722	256,034
Excess (Deficiency) of Revenues over Expenditures	16,504	(1,936)	21,107	189	35,864
OPERATING TRANSFERS IN/(OUT)	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	16,504	(1,936)	21,107	189	35,864
Fund Balance - Beginning of Year	207,284	95,419	173,808	845	477,356
Fund Balance - End of Year	\$ 223,788	\$ 93,483	\$ 194,915	\$ 1,034	\$ 513,220

See accompanying notes to financial statements.

**TOWNSHIP OF LOVELLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
(PER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - PAGE 11)**

\$ 35,864

Amounts reported for governmental activities in the Statement of Activities
(page 8) are different because:

Depreciation expense is recorded in the statement of activities but not
the governmental fund financial statements

(21,002)

Governmental funds report purchases of assets as expenditures.
However, in the government-wide financial statements, asset
purchases are capitalized and depreciated over their useful lives.

24,756

**CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER
STATEMENT OF ACTIVITIES - PAGE 8)**

\$ 39,618

See accompanying notes to financial statements.

**TOWNSHIP OF LOVELLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2006**

	ASSETS	
Cash		\$ 162,161
		<u> </u>
	LIABILITIES	
Due to Other Funds		162,049
Due to Individuals		112
		<u> </u>
Total Liabilities		\$ 162,161
		<u> </u>

See accompanying notes to financial statements.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE A: ENTITY

The Township of Lovells is a general law township of the State of Michigan located in Crawford County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment and human services. The criteria established for the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Lovells Township.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Lovells Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Lovells Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

Government-Wide Financial Statements (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Fire Fund – This fund is used to account for all financial transactions related to fire protection services provided by the Township. Property taxes represent the main source of revenue.

Landfill Fund – This fund is used to account for all financial transactions of the Township's landfill activities. Revenues are primarily from property taxes.

The Township reports the following non-major fund:

Liquor Law Enforcement

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year exceeded \$40,000,000.

The tax rates for the year ended March 31, 2006, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.8845 mills per \$1,000
Fire	1.0591 mills per \$1,000
Landfill	1.9380mills per \$1,000

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items. During the year ended March 31, 2006 no over-expenditures were noted.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	30 – 75
Improvements, other than buildings	10 – 20
Machinery and equipment	5 – 10
Vehicles	25 – 40

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$1,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Other wise, the cost should be expensed as repair and maintenance.

For information describing capital assets, see Note E.

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. At March 31, 2006 the township had no debt obligations.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE C: CASH AND INVESTMENTS

Cash consists of bank accounts or securities with original maturities of 90 days or less.

All cash deposits are maintained in financial institutions in Northern Michigan. The Township's deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
General	\$ 110,910	\$ 101,531	\$ -	\$ 9,379	\$ 109,592
Landfill	56,302	56,302	-	-	56,216
Fire	14,019	14,019	-	-	13,800
Liquor Law	1,034	1,034	-	-	1,034
Total	<u>\$ 182,265</u>	<u>\$ 172,886</u>	<u>\$ -</u>	<u>\$ 9,379</u>	<u>\$ 180,642</u>
Trust & Agency	162,161	-	-	162,161	162,161

TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006

NOTE C: CASH AND INVESTMENTS (CONTINUED)

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's investments are as follows:

- (1) Insured or securities held by the Township or the Township's agent in the Township's name.
- (2) Uninsured with securities held by the counter party's trust department or its agent in the Township's name.
- (3) Uninsured with securities held by the counter party's trust department or agent but not in the Township's name.

	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
General	\$ 27,114	\$ 47,886	\$ -	\$ 75,000
Fire	-	19,000	-	19,000
Landfill	-	55,000	-	55,000
	<u>\$ 27,114</u>	<u>\$ 121,886</u>	<u>\$ -</u>	<u>\$ 149,000</u>

NOTE D: DUE FROM/TO OTHER FUNDS

Due From/To Other Funds represents \$162,049 collected in current tax collection fund that had not been distributed at March 31, 2006, to the various funds as follows:

General Fund	\$ 34,750
Fire Fund	53,342
Landfill Fund	73,957
	<u>\$ 162,049</u>

NOTE E: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>	<u>CAPITAL ASSETS DEPRECIATED</u>			
	<u>Land & Improv.</u>	<u>Buildings</u>	<u>Data Handling Equipment</u>	<u>Vehicles and Equipment</u>	<u>Totals</u>
Governmental Activities					
<i>Capital Assets</i>					
Balance, April 1, 2005	\$ 52,599	\$ 220,529	\$ 9,721	\$ 442,427	\$ 725,276
Increases	-	11,301	-	13,455	24,756
Decreases	-	-	-	-	-
Balance, March 31, 2006	<u>52,599</u>	<u>231,830</u>	<u>9,721</u>	<u>455,882</u>	<u>750,032</u>
<i>Accumulated Depreciation</i>					
Balance, April 1, 2005	-	49,642	7,594	221,795	278,431
Increases	-	4,342	718	15,942	21,002
Decreases	-	-	-	-	-
Balance, March 31, 2006	<u>-</u>	<u>53,384</u>	<u>8,312</u>	<u>237,737</u>	<u>299,433</u>
<i>Capital Assets, Net</i>	<u>\$ 52,599</u>	<u>\$ 178,446</u>	<u>\$ 1,409</u>	<u>\$ 218,145</u>	<u>\$ 450,599</u>

**TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE E: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Township as follows:

Governmental Activities

General Government	\$ 7,542
Public Safety	<u>13,460</u>
Total	<u>\$ 21,002</u>

NOTE F: PENSION PLAN

The Township of Lovells contributes to the Township of Lovells Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions. Upon the date of hire, all salaried employees are eligible to participate in the plan. Contributions made by both the Township and employees vest immediately. The participant will receive benefits at age 65 or the tenth anniversary of the date the participant commenced participation of the plan if later.

The plan requires the Township to contribute 10% of the eligible employees wages. During the year the Township contributed \$3,887 to the plan which was 10% of its current year covered payroll.

TOWNSHIP OF LOVELLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2006

NOTE G: CONTINGENCIES

INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Local Sources:				
Current Property Tax	\$ 38,000	\$ 38,000	\$ 38,137	\$ 137
Charges for Services:				
Summer Tax Collection	9,628	9,628	9,628	-
Permit Fees	1,000	1,000	780	(220)
Land Split Fees	150	150	225	75
Grave Openings	300	300	600	300
Library Income	150	150	628	478
Other:				
Cemetery Lots	100	100	100	-
Town Hall Rent	200	200	100	(100)
Interest on Investment	1,600	1,600	2,877	1,277
Other	200	200	5,733	5,533
State Sources:				
State Shared Revenue	42,072	42,072	43,005	933
Swamp Tax	41,000	41,000	40,940	(60)
Total Revenues	134,400	134,400	142,753	8,353
EXPENDITURES				
GENERAL GOVERNMENT				
Township Board:				
Salaries	2,400	2,400	2,400	-
Mileage	50	50	-	50
Total Township Board	2,450	2,450	2,400	50
Township Supervisor:				
Salary	12,400	12,400	12,400	-
Mileage	600	600	554	46
Total Township Supervisor	13,000	13,000	12,954	46
Elections:				
Salaries	1,000	1,000	357	643
Other	200	200	117	83
Total Elections	1,200	1,200	474	726
Township Assessor:				
Salary	19,800	19,800	19,800	-
Computer Program	900	900	195	705
Mileage	900	900	-	900
Total Township Assessor	21,600	21,600	19,995	1,605

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Clerk:				
Salary	11,900	11,900	11,900	-
Deputy Salary	1,000	1,000	269	731
Mileage	200	200	74	126
Total Township Clerk	13,100	13,100	12,243	857
Board of Review:				
Salaries	1,750	1,750	825	925
Mileage	50	50	-	50
Total Board of Review	1,800	1,800	825	975
Township Treasurer:				
Salary	11,900	11,900	11,900	-
Deputy Salary	600	600	159	441
Mileage	1,800	1,800	1,701	99
Total Township Treasurer	14,300	14,300	13,760	540
Buildings and Grounds:				
Maintenance Salary	4,800	4,800	1,970	2,830
Supplies	2,500	2,500	372	2,128
Utilities	9,500	9,500	7,648	1,852
Repair and Maintenance	4,050	4,050	9,621	(5,571)
Building Improvements	13,000	13,000	372	12,628
Total Buildings and Grounds	33,850	33,850	19,983	13,867
Cemetery:				
Grave Opening and Closing	1,200	1,200	300	900
Cemetery Utilities	700	700	180	520
Total Cemetery	1,900	1,900	480	1,420
Unallocated General Government:				
Fringe Benefits	865	865	540	325
Pension	4,760	4,760	4,575	185
Contracted Services	3,150	3,150	2,656	494
Office Supplies	1,000	1,000	671	329
Postage	3,000	3,000	1,695	1,305
Computer Program	1,800	1,800	1,288	512
Legal and Audit Fees	3,000	3,000	5,762	(2,762)
Printing and Publishing	2,000	2,000	1,882	118
Insurance and Bonds	5,791	5,791	6,227	(436)
Office Equipment Maintenance	500	500	347	153
County Programs	2,500	2,500	2,912	(412)

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

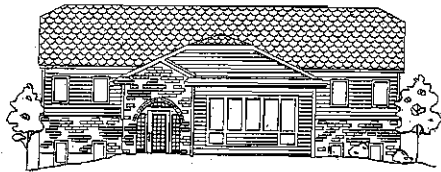
	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Membership and Dues	700	700	50	650
Education	2,000	2,000	954	1,046
Equipment	1,500	1,500	7,121	(5,621)
Road Signs	500	500	300	200
Refunds	150	150	-	150
Total Unallocated General Government	33,216	33,216	36,980	(3,764)
TOTAL GENERAL GOVERNMENT	136,416	136,416	120,094	16,322
PUBLIC SAFETY				
Zoning Administrator:				
Salary	4,000	4,000	3,920	80
Mileage	800	800	541	259
Total Zoning Administrator	4,800	4,800	4,461	339
Zoning Board of Appeals:				
Salaries	2,200	2,200	1,640	560
Mileage	100	100	54	46
Total Zoning Board of Appeals	2,300	2,300	1,694	606
TOTAL PUBLIC SAFETY	7,100	7,100	6,155	945
Total Expenditures	143,516	143,516	126,249	17,267
Excess (Deficiency) of Revenues over Expenditures	(9,116)	(9,116)	16,504	25,620
Fund Balance - Beginning of Year	207,284	207,284	207,284	-
Fund Balance - End of Year	\$ 198,168	\$ 198,168	\$ 223,788	\$ 25,620

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FIRE FUND
FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Current Property Tax	\$ 52,500	\$ 52,500	\$ 60,598	\$ 8,098
Interest on Investment	100	100	783	683
Other	-	-	836	836
Total Revenues	52,600	52,600	62,217	9,617
EXPENDITURES				
Wages	13,575	13,575	17,439	(3,864)
Medical Expenses	3,000	3,000	3,185	(185)
Fringe Benefits	10,525	10,525	1,560	8,965
Supplies	1,500	1,500	4,980	(3,480)
OSHA Fines	-	-	-	-
Travel and Expenses	1,700	1,700	1,580	120
Insurance	6,200	6,200	7,349	(1,149)
Utilities	6,000	6,000	5,919	81
Repairs and Maintenance	7,500	7,500	5,791	1,709
Education	1,050	1,050	880	170
Operating Supplies, Small Equipment	8,700	8,700	15,470	(6,770)
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	59,750	59,750	64,153	(4,403)
Excess (Deficiency) of Revenues over Expenditures	(7,150)	(7,150)	(1,936)	5,214
Fund Balance - Beginning of Year	95,419	95,419	95,419	-
Fund Balance - End of Year	\$ 88,269	\$ 88,269	\$ 93,483	\$ 5,214

TOWNSHIP OF LOVELLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LANDFILL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Current Property Tax	\$ 78,300	\$ 78,300	\$ 83,581	\$ 5,281
Other Fees	400	400	654	254
Interest on Investment	800	800	1,782	982
Total Revenues	79,500	79,500	86,017	6,517
EXPENDITURES				
Salaries	13,000	13,000	12,078	922
Fringe Benefits	956	956	920	36
Contracted Services	52,000	52,000	45,411	6,589
Utilities	2,000	2,000	1,735	265
Repair and Maintenance	9,000	9,000	181	8,819
Snowplowing	1,200	1,200	850	350
Small Equipment	100	100	420	(320)
Miscellaneous	210	210	(865)	1,075
Capital outlay	-	-	4,180	(4,180)
Total Expenditures	78,466	78,466	64,910	13,556
Excess (Deficiency) of Revenues over Expenditures	1,034	1,034	21,107	20,073
Fund Balance - Beginning of Year	173,808	173,808	173,808	-
Fund Balance - End of Year	\$ 174,842	\$ 174,842	\$ 194,915	\$ 20,073



Keskine, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskine, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

April 21, 2006

To the Township Board
Township of Lovells, Crawford County

We have audited the financial statements of Lovells Township for the year ended March 31, 2006, and have issued our report thereon dated April 21, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 1, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Lovells Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lovells Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached pages summarize the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

The financial records of Lovells Township were well organized and we are happy to report that there were no difficulties in performing the audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of Lovells Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comments and recommendations should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- Lovells fire fighter's have their own account under the EIN number of Lovells Twp. Non-fire related events are run through this account – chicken barbeques pancake breakfasts, etc. We recommend they have their own entity and their own bank accounts with their own ID number and a name that does not contain the words "Lovells Township".
- Landfill transfer station cards are sold out of local stores and the Clerk's Office. Currently, no one is reconciling the cash received with the number of cards sold. Cards are pre-numbered and reconciliation should be possible.

We hope that you find the above comments and recommendations useful. We are available to discuss these items in further detail with you at your convenience.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Keskine, Cook, Miller & Alexander LLP